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RR RUEHROV
DE RUEHDS #0773/01 0731230
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FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 5067
INFO RUCNIAD/IGAD COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC 0005

UNCLAS SECTION 01 OF 04 ADDIS ABABA 000773

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STATE FOR EB/TPP AND EB/EPS
PASS TO USTR

E.O. 12958: N/A

TAGS: [ETRD](#) [AGOA](#) [PREL](#) [PGOV](#) [EFIN](#) [ET](#)

SUBJECT: ETHIOPIA: INPUT FOR 2007 PRESIDENT'S REPORT ON AGOA

REF: STATE 022438

ADDIS ABAB 00000773 001.2 OF 004

¶1. Per reftel, Post is providing information for use in the 2007 President's Report on AGOA. Post is also including information on USG outreach efforts and technical assistance programs aimed at increasing Ethiopia's participation in AGOA.

MARKET ECONOMY/ECONOMIC REFORM/
ELIMINATION OF TRADE BARRIERS

¶2. Since the early 1990's, Ethiopia has embarked on pursuing a development strategy based on a mixed economy of both state and private enterprises. It has eliminated discriminatory tax, credit, interest rate, and foreign trade treatment of the private sector, and tried to simplify bureaucratic regulations and procedures. With USG assistance, important progress was made in 2004 and 2005 in reforming tax administration and operations, reducing the number of days to register a business, and land certification. There has also been progress in the protection of intellectual property rights, including a new copyright bill adopted in June 2004. An August 2005 directive allows private companies to serve as an internet service provider (ISP) through the government's backbone infrastructure. Ethiopia had formally applied for WTO membership in January 2003 and submitted its Memorandum of Foreign Trade Regime to WTO in December 2006. Further reforms, particularly in the services (finance and telecommunications) sector, are expected as a result of the accession process. However, the state remains heavily involved in most economic sectors, and parastatal and party-affiliated companies continue to dominate trade and industry, hampering full and free competition for the emerging private sector.

¶3. Ethiopia's GDP for 2006 is estimated at USD 9.8 billion, with an annual per capita GDP of USD 130. The economy is predominantly agricultural, with agriculture contributing 47 percent to the GDP and employing 80 percent of Ethiopia's 77 million people. In 2006, the economy grew by 9.6 percent, and the inflation rate was 12.3 percent. U.S.-Ethiopian bilateral trade totaled approximately USD 217 million in ¶2006. Ethiopia's exports to the United States were USD 81.1 million in 2006, an increase of 31 per cent over 2005. There are no special barriers to U.S. trade and investment, though a limited number of sectors continued to remain closed to foreign investment. In 2005, Ethiopia and the U.S. signed an Open Skies air transportation agreement.

¶4. There are ten excise tax brackets, applied equally to domestically produced and imported goods, ranging from 10 percent for textiles and electronic products to as high as 200 percent for alcoholic beverages. The current Customs Tariff of Ethiopia is based on the 2002 Harmonized Commodity Description and Coding System (HS), issued per the International Convention on Harmonized Commodity Description and Coding System Ratification Proclamation No. 67/1993 (ICHCDCSR N. 67/1993), and deals with the scope of import duties. The tariff rate was reduced from 230 percent to 35 percent, and the number of official tariff rates (tariff bands) was reduced from 23 to 6. Ethiopia has also reduced customs duties on a wide range of imports while all exports are duty-free. Currently, the government is undertaking a customs tariff reform.

¶5. In April 2003, the government established the Ethiopian Intellectual Property Office under the Science and Technology Commission to administer trademark, copyrights and intellectual property issues. In June 2004, the government passed the Copyright and Neighboring Rights Protection Proclamation No. 410/2004. The proclamation protects the rights of copyright owners and associated beneficiaries (neighborhood rights) for such works as literary, music, performance, broadcast, photography, software, database and other published works. The law imposes both fines and imprisonment on those who infringe on these rights. In July 2006, the government passed Proclamation 501/2006 which provides for the acquisition of rights and procedures for registration of trademarks, collective trademarks and well known marks; duration and renewal of rights; rights conferred by registration and license contracts, and other miscellaneous provisions.

ADDIS ABAB 00000773 002.2 OF 004

¶6. Ethiopia's revised investment code (2002) prohibits foreign firm participation in domestic banking, insurance and micro-credit services. The state holds a monopoly in the telecom sector. Other areas of investment reserved for Ethiopian nationals include broadcasting, air transport services using aircraft with a seating capacity of more than 20 passengers, and forwarding and shipping agency services. Professional service providers must be licensed by the Government to practice in Ethiopia, and foreign investors intending to buy an existing enterprise or buy shares in an existing enterprise need to obtain prior approval from the Investment Commission. The Ethiopian Government reviews investment proposals in a non-discriminatory manner. Foreign investors do not regard the screening process as an impediment to investment, a limit to competition, or a means of protecting domestic interests.

¶7. Disputes arising out of foreign investment that involve a foreign investor or the state may be settled by means agreeable to both parties. A dispute that cannot be settled amicably may be submitted to a competent Ethiopian court or to international arbitration within the framework of any bilateral or multilateral agreement to which the Government and the investor's state of origin are contracting parties. Ethiopia is not a member of the International Center for the Settlement of Investment Disputes.

POLITICAL PLURALISM/RULE OF LAW/ANTI-CORRUPTION

¶8. In May 2005, Ethiopia held its third national elections, in which the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) won a third consecutive five-year term. Opposition parties made an unexpectedly strong showing, increasing their parliamentary representation from 12 seats to 172. Irregularities, including intimidation of voters and election observers, marred polling in many areas.

The GOE/EPRDF also announced the "final" election results before the National Electoral Board of Ethiopia released them. Some observers reported killings, disappearances, voter intimidation and harassment, and unlawful detentions of opposition party supporters. Nevertheless, international observers, including the Carter Center, hailed the elections as generally credible and an important development in the country's efforts at democratization.

¶9. While the law provides for an independent judiciary, the judiciary remained weak and overburdened. Some NGOs perceived the judiciary to be subject to significant political intervention.

¶10. The GOE formed a Federal Ethics and Anti-Corruption Committee in 2001 to investigate ethics and corruption claims. A 2004 United Nations investment guide to Ethiopia noted that the private sector reports that routine bureaucratic corruption is largely non-existent in Ethiopia. Bureaucratic delays and difficulties certainly exist, but they are not devices by which officials strive to derive personal gain. However, other reports differ. For example, Transparency International ranked Ethiopia 137th out of 156 countries in 2005, and 130 of 163 countries ranked in 2006, showing no improvement in combating corruption. Ethiopia tries to combat corruption through a combination of social pressure, cultural norms, and legal restrictions.

POVERTY REDUCTION

¶11. Poverty alleviation and food security remain priorities for the government. The 2006/07 government budget allocations reflect poverty reduction priorities. The government has decreased military spending from 13 percent of GDP in 1999/2000, during the border war with Eritrea, to 3.5 percent of GDP in 2005/06, and is redirecting the savings to poverty reduction and capacity building efforts. (Note: Figures on military spending related to Ethiopian intervention in Somalia in late 2006 are not yet available. End Note.) In coordination with donors, the GOE is implementing its 2006-2010 Plan for Accelerated and Sustainable Development to End Poverty in Ethiopia (PASDEP). In addition to continuing poverty reduction strategies in areas such as human development, rural development, capacity building, and food security, the new PASDEP will increase efforts in commercialization of agriculture, greater private sector participation in the economy, and scaling-up efforts to achieve the Millennium Development Goals. Ethiopia is participating in the enhanced Highly Indebted Poor Countries

ADDIS ABAB 00000773 003.2 OF 004

(HIPC) initiative and received debt relief totaling USD 1.9 billion in 2004/05.

LABOR/CHILD LABOR

¶12. Ethiopia generally enjoys peaceful labor relations. A new labor law that went into effect in February 2004 and was amended in June 2006 is generally considered pro-employer by labor unions. Workers who perform essential services are not permitted to strike. Most ILO Core Labor Standards have been enacted into the law; the Ethiopian Parliament ratified ILO Convention 182 on the Worst Forms of Child Labor in May 2003. There were laws against child labor; however, the government did not effectively implement these laws in practice, and child labor remained a serious problem, both in urban and rural areas. Under the law, the minimum age for wage or salary employment is 14 years, which was consistent with the age for completing primary school; the minimum age for employment was not effectively enforced, however. Special provisions cover children between the ages of 14 and 18, including the prohibition of hazardous or night work. The Ministry of Labor and Social Affairs is responsible for enforcing child labor laws, but it did not provide adequate

resources and oversight. While the government made some effort to enforce these regulations within the formal industrial sector, social welfare activists, civic organizers, government officials, and employers agreed that child labor was pervasive throughout the country, particularly in agrarian areas and in the informal sector.

AGOA OUTREACH AND TECHNICAL ASSISTANCE EFFORTS

¶13. Though Ethiopia's exports under AGOA remain small compared with other eligible countries, strong potential exists in several key sectors. The U.S. Government is actively working to support Ethiopia's participation in AGOA through both outreach/promotion efforts and technical assistance, and continues to actively engage the GOE through the public-private sector AGOA Technical Committee established in late 2004. A summary of activities undertaken during 2006 include the following:

-- Under USAID's "AGOA Plus" program (a two-year export promotion program providing technical assistance in areas such as Diaspora coordination, export promotion, trade show support, and information and communications technology) various experts in key sectors provided specialized technical assistance in 2006. Twenty-three companies attended various trade shows in the U.S., including: seven garment and two women-owned handicraft companies attending the September 2006 Material World trade show, one honey processing company in May 2006 in Chicago, 10 textile and garment companies at the February 2007 Magic Show, and three flower companies at the March 2006 Miami Flower Show. In addition to gaining knowledge and experience from the shows, these firms negotiated significant orders during the trade shows.

-- In April 2006, an expert from the U.S. visited 16 Ethiopian textile and garment companies. The expert assessed readiness of the companies for export and found that only two are ready. A one-day workshop was organized and the findings of the assessment were explained to the companies.

-- In June 2006, training programs on how to develop and best approach the U.S. market for coffee, garment, textile, flower, handicraft, and oil seeds exports were organized and attended by over 50 companies.

-- Ethiopia was approved for AGOA's Category 9 provisions in ¶2005. In 2006, post worked closely with women-owned businesses to help them take advantage of Category 9 by organizing several seminars and workshops. USAID sponsored representatives of several women-owned hand-loom firms to travel to the United States to market their goods. Two women-owned producers are already exporting to the United States under Category 9, and such exports under AGOA are expected to expand significantly.

-- Post worked closely with the public-private sector AGOA Technical Committee to promote both high-level government and private sector participation in the Forum and to generate information on AGOA. The AGOA Technical Committee, comprised of officials from the Ministry of Trade and Industry (MOTI), the Ministry of Foreign Affairs (MFA), USAID and Embassy staff, and the Addis Ababa Chamber of Commerce, monthly and

ADDIS ABAB 00000773 004.2 OF 004

serves as a mechanism for exchanging information on AGOA among key stake-holders and identifying constraints for businesses that can be addressed through the Committee. Post used the occasion of the AGOA Forum to host a June 2006 AGOA Discussion on "Enhancing Ethiopia's Participation in the African Growth and Opportunity Act." Participants included prominent government, business, civil society, and media figures, including the State Minister of Trade and Industry, and the Secretaries General of the Ethiopian and Addis Ababa Chambers of Commerce. Discussions focused on addressing supply-side constraints and establishing linkages with U.S.

firms.

-- In February 2007, post hosted a "USA Booth" at the 11th Addis Chamber International Trade Fair, the largest trade fair in Ethiopia. The USA Booth included a one-on-one counseling corner on AGOA for local companies. Post also conducted a seminar on "Doing Business with the United States" on February 27, 2007 which was attended by over 90 companies.

-- Long-term USAID trade advisors have co-located offices with the Ethiopian Chamber of Commerce and will shortly be joined by the staff of the Ethiopian Trade Promotion Agency.
YAMAMOTO